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The Rotary Plan
...for...
Monetary Reform
in Canada

By
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PRELIMINARY STATEMENT

IT IS with due diffidence that I make claim to the discovery of what I call "mass-hoarding" and it is upon this discovery that the Rotary Plan for Monetary Reform is mostly based. I shall explain.

In economics it is generally agreed that the term "saving" means that part of income which is not spent for consumer goods and that the term "current investment" means that part of savings which is expended for capital equipment by entrepreneurs. But there is a part of saving that is not invested in capital equipment and that part is called "hoarding." Hoarding, therefore, is that part of income which is neither spent for consumer goods nor invested in capital equipment. Hoarding goes continually into public bonds.

The small savings of millions of Canadians are deposited in the banks or paid as premiums to insurance companies or put into trust companies to be invested by them. These financial institutions are continually accumulating large sums in this way and although they invest a great part of their funds in capital equipment by way of loans and the buying of commercial stocks and bonds yet they also hoard a large part. That is, financial institutions mass-hoard a large part of the aggregate savings of the people and their mass-hoarding flows continually into public bonds.

In this booklet I show how the public debt is composed entirely of hoardings and that the very act of hoarding by the bondholders forces the total debt of Canada ever to increase. The Rotary Plan for Monetary Reform is designed mainly to overcome the many evil effects of hoarding.

W. H. COLLIER.

Edmonton, Alberta.

May 19th, 1937.

The Rotary Plan for Monetary Reform in Canada

PART I

THE PUBLIC DEBT

THE total public debt of Canada amounts now to approximately \$7,500,000,000 made up of bonds issued by the federal, municipal and provincial governments. The debt has increased year after year since 1900. During the last thirty years the increase has averaged about \$200,000,000 a year; during the last fifteen years the average has been about \$225,000,000 a year and during the last six years about \$300,000,000 a year. It has increased during boom times and depressions alike and at an accelerative rate.

The bondholders mostly remain the same from year to year, the main ones being the banks, insurance companies, other financial institutions and societies both Canadian and foreign, a few industrial firms and many wealthy families. They make it a business to "buy" public bonds and have accumulated almost all that have been issued. A few bonds have been bought by casual buyers but their holdings amount to very little.

Where have these bondholders been able to obtain an average of \$200,000,000 a year of Canadian money for thirty years with which to "buy" new issues of public bonds? Where have they obtained an average of \$225,000,000 a year for the last fifteen years? Where an average of \$300,000,000 a year for the last six years even during the greatest depression in the history of the nation? There is only one possible answer. They have obtained the money each year from the "interest" paid them on the preceding debt.

The amount of interest paid each year on the public debt has naturally increased year after year with the increasing of the debt, and the interest paid each year has been a little more than the increase in the debt. The interest paid during the past six years has averaged about \$350,000,000 a year.

The "interest" is collected by taxes from the incomes of producers and given **gratis** to the holders of public bonds. The bondholders do not earn it personally nor with their money. They are not entrepreneurs. They do no work themselves for it and not one dollar of the debt money upon which the interest is reckoned is used or has been used in the general process of production. As bondholders they produce nothing whatever and do not give any goods or services in exchange for the money they receive as "interest."

This interest is "**found money**" to them and therefore they are able to hoard most of it. They have hoarded each year during the past six years an average of about \$300,000,000 out of the average of \$350,000,000 which they have been paid. This hoarded money comes from the national income and the bondholders neither spend it for consumer goods nor invest it in capital equipment but hold it idle thus causing a chronic deficiency of purchasing power which the governments must continually replace year after year.

Idle Money

Widespread unemployment over the whole country is the one great problem in Canada and with its solution many minor problems will disappear. And the main cause of unemployment, if not the only one, is the idleness of money and other purchasing power. A tremendous amount of purchasing power has been accumulated in bank deposits and in public bonds and a very small part of it is being used at any time. Most of it is being held idle and the direct connection between this idle purchasing power and unemployment can be clearly established.

Let us assume that I have money deposited in a bank. I have complete control of the use of that money and I am the only one who has. It is bank-money but the bank after crediting me with it in my deposit account has no further control over it. I alone can either use it or hold it idle. There are over four million deposit accounts in the chartered banks and each of the owners of them can do the same as I. Each one can either hold his money idle or use it.

The Creation of Money in Canada

The money of Canada is of two kinds (a) Currency or Circulating Media, and (b) Bank-money.

(a) Currency or Circulating Media is composed of:

1. Silver, nickel and bronze coins.
2. Bank notes issued by the chartered banks.
3. Bank of Canada notes.

(b) Bank-money is the deposits in our banks and they are created in three ways:

1. By depositing currency in the banks.
2. By bank loans.
3. By "selling" public bonds to the banks.

Whenever a bank either grants a loan or "buys" a public bond it creates a deposit either for itself or for another bank within the banking system. On January 1st, 1937 there were upwards of \$2,300,000,000 of deposits in the chartered banks and of this amount less than \$100,000,000 was from currency; about \$900,000,000 was from bank loans and over \$1,300,000,000 was from public bonds which had been "bought" by the banks. It is to be seen, therefore, that the deposits (bank-money) in the banks are derived from three separate sources, currency, bank loans and public bonds. And since there are over eight thousand governing bodies in Canada each of which can issue public bonds at will, therefore, there is now no controlling the quantity of bank-money that may be created.

The Function of Money

In our Economic System the sole function of money is to pay for employment. Each individual worker in the nation is paid money for his employment; that is, for the goods he produces and the services he renders, and he in turn pays the money out for the employment of others; that is, for the goods he consumes and the services he receives.

We exchange the products of our own work and services for the products of the work and services of others and money is the medium of the exchange.

Or it may be put in another way: We purchase the things we buy with the money we receive from the sale of the things we sell. Each worker first sells his own employment whether it is in the form of some goods or products which he has helped produce or directly as work and services. Then, with the money he has earned he in turn purchases the employment of others, likewise whether in the form of goods or directly as work and services. That is, as money changes hands in the payment for goods or for work and services it creates employment.

Therefore, if I use my bank-money in any way, either to purchase goods or services or to invest it in the production of more goods, I will create employment for others. Yet, I am not obliged by any laws or rules to use my money and may hold it idle for a day, a year or for my lifetime. But as

there are other people seeking employment and since by using my money I will create employment for them, therefore, so long as I hold it idle I cause some unemployment.

Further, assuming that I hold a government bond which the banks are authorized to buy, simply by "selling" it to a bank the bank creates new bank-money and credits it to my deposit account. Therefore, during the time that I own the bond, I am holding potential bank-money idle, the same as I hold bank-money idle in my deposit account. It is to be seen, therefore, that purchasing power may be held idle both in bank deposits and in public bonds and while there are people needing and looking for employment so long as it is held idle it must cause some unemployment.

There is in Canada approximately eight billion dollars of purchasing power in bank deposits and in public bonds and most of it is being held continuously idle, while at the same time there may be a million or more people seeking employment. Only a small percentage of this idle purchasing power is needed to be used in order to do away with all unemployment in Canada.

By way of illustrating my argument; supposing I am standing on a wharf alongside a river with a pile of life-preservers beside me and a man has fallen into the water and the only way he can be saved from drowning is for me to throw him a life-preserver. I do not throw him one and he drowns. Is there any question but that I am responsible for his death? I did not use any of the life-preservers although many were available. I kept them all idle.

Similarly, if I have purchasing power either in bank-money or in public bonds and since by using some of it I will create employment which other people need in order to earn their living it necessarily follows that by holding all my purchasing power idle I cause some unemployment. Is it not the duty of the government of Canada to collect enough of this idle purchasing power from those who are holding it idle and use it to provide work for all those unemployed?

Trading Power vs. Purchasing Power

By drawing a clear distinction between trading power and purchasing power it will greatly help us to understand the full significance of the latter term and the real function of money.

Let us assume that I am a manufacturer of shoes. I wish to trade some of my shoes for food, some for clothing, some for shelter and some for luxuries. I want and need many

things that I cannot produce myself. I get much pleasure and excitement from watching a baseball game, a tennis match and other athletic contests so I trade some of my shoes to watch athletes display their prowess. They trade their athletic abilities for my shoes. Also professional men trade their special knowledge and services for my shoes. Each person trades the products of his own employment for the products of the employment of others, the products being either goods or services. Whatever products his own employment has produced or acquired or is capable of producing are each man's **trading power**.

On the other hand, **purchasing power** is money or potential money which has been directly or indirectly authorized by the government of the nation. It may have no intrinsic value in itself but is used to complete the trades or exchanges of the products of the employment of one person for the products of the employment of others.

Trading power is created or produced by human activities while **purchasing power** is some token created or authorized by the government. Purchasing power is the go-between in a trade of goods or services for other goods and services. In our complicated economy we first exchange our trading power in the form of goods or services for purchasing power and then complete the trade by exchanging our purchasing power for other goods and services. We purchase the things we buy with the purchasing power we receive from the sale of the things we sell.

The following is a partial list of the things that a man may own or possess which, when other people desire them from him, will give him **trading power**:

1. Food, clothing, shelter and/or luxuries; that is consumer goods.
2. Machinery and tools for producing them; that is capital equipment.
3. Ability to work, either physically or mentally.
4. Technical knowledge and skill.
5. Professional knowledge and skill.
6. Athletic abilities.
7. Commercial stocks and bonds.
8. Real estate and other property.
9. Mortgages, notes and other business paper.

Purchasing power, on the other hand, consists of money which may be in the form of either currency or bank-

money and potential money in the form of public bonds. Therefore, a man in the possession of currency, bank-money or a public bond has **purchasing power**.

Besides the more than four million deposit accounts in our chartered banks containing over two billion dollars of bank-money there are more than six billion dollars of public bonds owned by bondholders other than the banks and together they constitute more than eight billion dollars of purchasing power most of which is being held continuously idle. It is the constant accumulation of this idle purchasing power by bondholders which causes the chronic deficiency of effective purchasing power in current use in the production and exchanging of goods and services.

Deficiency of Effective Purchasing Power

Over a century ago David Ricardo propounded a doctrine or theory: "That supply creates its own demand and consequently it is impossible for effective demand to be deficient." And this theory has been accepted by most orthodox economists even to this day. John Maynard Keynes in his book, *The General Theory of Employment, Interest and Money*, puts it as follows:

"Provided it is agreed that income is equal to the value of current output, that current investment is equal to the value of that part of current output which is not consumed and that saving is equal to the excess of income over consumption—all of which is conformable to common sense and to the traditional usage of the great majority of economists—the equality of saving and investment necessarily follows."

In short: $\text{Income} = \text{value of output} = \text{consumption} + \text{investment}$.

and, $\text{Saving} = \text{income} - \text{consumption}$.

Therefore, $\text{Saving} = \text{investment}$.

But, while Mr. Keynes accepts the theory he is not altogether satisfied with it because he notes that there is a discrepancy between the results of the theory and the facts of observation and later on in his book he says: "It may well be that the classical theory represents the way we should like our economy to behave. But to assume that it actually does so is to assume our difficulties away."

In my booklet, *Super-Money*, I have given sufficient facts, I believe, to prove this Ricardian doctrine to be fallacious and that there is a chronic deficiency of effective demand.

under our present monetary system. I have also shown what causes the deficiency and how it can be overcome.

On page 19 of the booklet is given a diagram which helps to create a mental picture of how the Economy in which we live actually works. I claim that, as direct results of the productive and economic activities of any period,

$$\text{Income} = \text{value of output} = \text{consumption} + \text{hoarding} + \text{investment}.$$

$$\text{and, Saving} = \text{income} - \text{consumption}.$$

$$\text{Therefore, Saving} = \text{hoarding} + \text{investment}.$$

However, in order that the total income shall eventually return to the entrepreneurs and all the goods that were produced be sold, it is necessary that the income of the period be finally distributed between consumption and investment. Therefore, hoarding equals a deficiency of effective demand in the workings of our economy that must be made up by the governments issuing new bonds. The new bonds are exchanged for the hoarding and the governments then spend the hoarding for consumption, viz., relief grants, many social services, public works, etc. Therefore saving is not equal to investment. Hoarding is a part of saving but it is not a part of investment. Hoarding does not belong to the entrepreneurs so no part of it is expended for additions to their capital equipment. It is all spent by the governments for consumption after getting it from the bondholders in order to overcome the deficiency of purchasing power caused by the hoarding.

PART II

WHY THE PUBLIC DEBT EVER INCREASES

An Economic Axiom

"THE total national income for any period of time exactly equals the total value of the productive output for the period," is an economic axiom accepted by most economists. In the following paragraph Professor Gustav Cassel, the eminent Swedish economist, gives a detailed explanation of this axiom:

"In regard to the aggregate production of the community the complaint of lack of purchasing power is, under all circumstances, pure nonsense. It is clear that nothing in our economic structure necessarily leads to a lack of purchasing power in relation to the total actual production. **INCOME** is the remuneration which everyone receives in return for his co-operation in the general process of production. This definition covers also the profits of the entrepreneur, a loss being reckoned as negative income. The sum-total of all incomes thus defined is the total income of the community. It is equal to the sum-total of the remunerations received by all those participating in the process of production, and is thus equal to the total value of what is produced. Hence it follows that the total income suffices to purchase the total production. The popular notion regarding the insufficiency of the total issue is thus a fallacy."

According to Professor Cassel, therefore, while goods are being produced just sufficient money is paid out to entrepreneurs to producers so that the latter, as consumers and investors when they spend it or invest it, buy the goods that were produced, the money returning to the entrepreneurs. The same money is being used over and over again while an unlimited value of goods are being produced and exchanged.

The National Income

The national income for Canada for the past six years has been estimated to have averaged approximately \$3,600,000,000 a year or about \$10,000,000 per day. That entrepreneurs in the aggregate paid out an average

\$10,000,000 each day as incomes to producers including the incomes of the entrepreneurs themselves for the production of goods, both consumer goods and capital equipment. And this income, after some of it had been redistributed to non-producers for various reasons, was all paid back to the entrepreneurs as they sold the goods for consumption and for investment.

But during the six years the governments, federal, provincial and municipal, jointly took by taxes from the incomes of producers an average of \$350,000,000 a year or about \$1,000,000 per day and gave it to the holders of public bonds as "interest." That is, about ten per cent of the total national income was continually taken from the producers and given to bondholders as "interest."

As all goods are perishable and must be sold soon after they are produced it was absolutely necessary that the whole \$10,000,000 of income per day be paid back to the entrepreneurs within a limited time in order to purchase all the goods for consumption and for investment. The entrepreneurs use their money over and over again. They first pay it out to produce goods and then it is paid back to them when they sell the goods. They dare not at any time produce more goods until they have sold those they have already produced or they would go bankrupt if they did. The quantity of goods produced during a year, therefore, depends chiefly upon the velocity with which their money returns to them. If any part of the national income be hoarded some production ceases until the hoarding be spent.

Hoarding

During the past six years the total public debt has increased at an average rate of about \$300,000,000 a year. Where and how did the bondholders get the money to buy the new public bonds which have been continually issued during the six years? There is only one answer. Out of the \$1,000,000 per day of "interest" that they received they hoarded an average of \$900,000 a day. That is, they neither spent the hoarding for consumer goods nor invested it in capital equipment but held it idle. This \$900,000 a day of hoarding inevitably caused an equal shortage of purchasing power spread over the whole nation which forced the governments to keep continually issuing new bonds, exchanging the bonds for the hoarding, then spending the hoarding for relief grants, social services, public works, etc., so that the money was finally spent for consumer goods and returned to the entrepreneurs. But the public debt was increased the amount of the hoarding.

Therefore, an average stream of nearly \$900,000 a day has been flowing during the six years from the national income through "interest" into hoarding and remaining there until exchanged for new public bonds and then spent by the governments. An untold amount of production and employment was continually blocked and prevented while this money remained in hoarding. The public debt is composed entirely of hoarding and under our present system the only way to release hoarding is by issuing new public bonds. Therefore, the total public debt increases each year by the amount of hoarding for the year and most of the hoarding comes from the "interest" paid to the bondholders on the preceding debt. The interest which is being continually paid on the public debt, therefore, ever forces the debt to increase.

In a recent debate in parliament Premier King gave figures showing that in the past five years the various governments, federal, provincial and municipal had spent an average of \$360,000,000 a year for social services including relief. Most of this money had to be raised by issuing new bonds, he pointed out. This confirms my contentions. The bonds were paid for by hoarding after the hoarding had forced the government to provide for the social services.

The Sequence of Facts—A Summary

We have definite records of the following facts and the sequence in which they occurred during the six years and it is very important to keep in mind the sequence because effects follow causes:

1. Production is a continuous process. Entrepreneurs paid producers an average of about \$10,000,000 per day for the production of an equal value of goods.

2. The governments took by taxes from this income an average of about \$1,000,000 per day and gave it to the bondholders as "interest."

3. The bondholders hoarded an average of about \$900,000 a day.

4. The hoarding caused a deficiency of purchasing power because the entrepreneurs continuously had goods on their hands for the hoarding to purchase. Much production had to cease, causing unemployment.

5. The deficiency forced the governments to issue new bonds in order to release the hoarding so that the money could be used as current purchasing power.

6. The bondholders exchanged their hoarding for the new bonds as fast as the bonds were issued.

7. The governments distributed the hoarding for relief, social service, public works, etc., and the money was spent for consumer goods and thus returned to the entrepreneurs.

8. And the total debt was increased by the amount of the hoarding, viz., an average of \$300,000,000 a year.

Does not this sequence of facts prove that the total public debt inevitably increases each year by the amount of hoarding of bondholders?

Does it not show that most of each year's hoarding comes from the "interest" paid to the bondholders on the preceding debt?

During the past six years every government in Canada has practised the utmost economy and has taxed the national income to the limit. Nevertheless, the debt has increased more each year than the year before. Does not the sequence show why this is? Each year the debt is increased and therefore more interest and therefore more hoarding and therefore more bonds must be issued. Thus, the debt is ever increasing at an accelerative rate.

No matter what additional economies the governments may have adopted or what additional taxes they may have levied during the six years neither would have prevented the hoarding of the bondholders and therefore could not have prevented the increase in the debt. The total public debt inevitably increases each year by the amount of the hoarding during the year. The hoarding, most of which comes from the interest on the preceding debt, ever forces the governments to issue new bonds.

By eliminating hoarding is it not evident that we can greatly increase the velocity of money? That is, each dollar used in the general process of production will return to the entrepreneurs on the average in one-half or one-third or one-quarter the time it now takes and therefore its velocity will be increased two, three or four times what it is now. Therefore, the total annual production can be increased two, three or four times what it is now while using the same quantity of money that we are now using.

A Fallacious Theory

Why can the bondholders hoard the "interest"? Because they do not earn it. They do not exchange any goods or services for it, and therefore they do not have to spend it

for goods and services in order to obtain more. The interest is given to them **gratis** because of a fallacious theory that the government "borrows" money from them when it "sells" them a public bond. The bond itself is as much money as a Dominion note, a Bank of Canada note or a cheque on a bank account and in "selling" the bond to a bondholder the government simply exchanges one form of money for another. In "Super-Money" I have given ample proof of the economic law which I have enunciated there:

"The government of a nation, having sovereign power to create money, cannot borrow money, because any instrument which it issues such as a bond, a debenture or a treasury note, promising to pay money to the holder thereof, is money in itself."

When the government "sells" a new bond it issues new money or purchasing power. For the government to "borrow" money when it has the power to issue money is like "carrying coals to Newcastle."

A Gigantic Swindle

The public bond is not a true investment. It is a pirate amongst investments and continually sails under false colors. All true investments must pay tribute to this pirate. Homestead farms, capital and labor all are taxed and sacrificed in order to pay "interest" on the public bond. The paying of the interest is a gigantic swindle perpetrated more or less unconsciously by the bondholders against every producer in the nation. It is the direct cause of the chronic deficiency of effective purchasing power and unemployment. It is continually obstructing the natural and automatic operation of the economic system. Because of this interest, at the present time out of every ten dollars of the national income one dollar is being taken and forced through an unnecessary routine before it can be used as purchasing power and the routine a duplicate dollar of purchasing power is created and issued by the government.

It is mathematically impossible for the governments of Canada to continue to pay interest on the public debt and at the same time prevent the debt from increasing. So much more impossible is it to redeem the debt itself by taxes on the national income. The \$7,500,000,000 of public bonds now in the hands of bondholders is hoarded purchasing power and in the hoarding duplicate purchasing power is issued and used by the governments so that now these bonds represent surplus purchasing power. In our economic system no goods can possibly be produced for these bonds.

purchase because during the production of all goods the entrepreneurs distribute sufficient money to purchase them for consumption and investment apart entirely from the bonds.

Adam Smith

In 1776 Adam Smith published his great book, "The Wealth of Nations," and in it he observed the following: "When national debts have once been accumulated to a certain degree there is scarce, I believe, a single instance of their having been fairly and completely paid. The liberation of the public revenue, if it has ever been brought about at all, has always been brought about by bankruptcy—sometimes by an avowed one, but always by a real one, though frequently by pretended payment."

Where do we stand in Canada at the present time? Have not our national debts accumulated far beyond the degree Adam Smith mentions? We are heading directly for financial chaos which will mean, if no preventive measures be taken at once, wholesale repudiation of public bonds. As preventive measures I am submitting the "Rotary Plan for Monetary Reform" which, I believe, will benefit every citizen of the nation and especially the present holders of public bonds.

PART III

THE ROTARY PLAN FOR MONETARY REFORM

1. Partially nationalize the chartered banks to the extent at least of limiting the rate of dividends to be paid bank shareholders and all surplus profits of the banks to be paid to the government yearly.

2. The federal government, by an agreement with the provinces, to issue sufficient treasury notes and deposit them in the banks thus creating bank-money (deposits) with which to redeem all public bonds outstanding, federal, provincial and municipal. That is, all bondholders will be paid off with bank-money and the bonds cancelled. The treasury notes will not bear interest. The government will pay the banks for their service in creating bank-money from the notes. The banks will not pay interest on deposits.

3. In the future no public bonds to be issued and "sold" by any government in Canada. Instead, all financing for public purposes, when necessary other than directly through taxes, to be done by depositing federal treasury notes with the banks.

4. The federal government to maintain a combined service and demurrage charge of, to begin with, one-half of one per cent ($\frac{1}{2}\%$) per quarter on all bank deposits and the revenue therefrom to be applied to the following three purposes: (a) Public works, (b) Old age pensions, (c) Retiring of treasury notes.

The rate of the charge to be fixed from time to time by an economic council.

It is to be seen that the part of the revenue from the demurrage when expended by the government for the first two purposes, public works and old age pensions, will rotate from deposits in the banks through the business structure of the country back to the deposits. But the part used to retire treasury notes will lessen the amount of deposits. As the treasury notes are retired bank-money will be cancelled.

Money Under Control

With the above four changes from the present monetary system the total quantity of money to be used in Canada will be brought under the complete control of the federal government or of an economic council representing all the governing bodies in Canada. The "interest" on all the present public debt will be eliminated yet the bondholders will not lose the principal of their bonds. They will be paid off with bank-money. There will be no longer any interest-bearing public debt in Canada.

There need be no changes from the present method of controlling the creating and issuing of currency because there is ample provided now for all business purposes under all circumstances.

After the redeeming of the bonds there will be approximately \$8,500,000,000 of bank-money (deposits) in the banks and an average of between two and three hundred million dollars of currency outside the banks in the hands of the general public.

Back of the deposits the banks will have in their tills and vaults some \$7,500,000,000 of treasury notes, about \$100,000,000 of currency and about \$900,000,000 of collateral securities for bank loans. Therefore, the deposits will be fully secured more than 85% of them by the federal government itself. The banks will be liable only for the deposits created from bank loans. Therefore bank deposits will be equally secure with currency and since there will be no need for more currency than we have now there will be no currency inflation. The treasury notes will remain always in the banks until retired. They will not circulate in the hands of the general public.

No Currency Inflation

As a rule everybody in Canada banks his money (currency) when he has more on hand than he requires for immediate use. He does not hoard large quantities in safes or other receptacles. Money is safer in the banks. With the banks partially nationalized all deposits will be fully guaranteed and, therefore, more secure than money-in-hand.

Currency is only the small change used in business. Fully 95% in value of all the business of the country is done by means of cheques which require bank-money to be transferred from one deposit account to another within the banking system. Bank-money never leaves the banks. A small

quantity is being continually turned into currency and the currency taken out of the banks but an equal amount of currency is being as continually deposited in the banks. The average amount of currency in the hands of the general public during any year seldom exceeds \$200,000,000. Under the Rotary Plan currency will remain the same as now and therefore, there will be no currency inflation.

Demurrage

The service and demurrage charge of $1\frac{1}{2}\%$ per quarter on all bank deposits will yield the government a constant revenue of about \$42,500,000 every three months or \$170,000,000 a year and most of it will come from idle money in the banks. A very small part of it will come from the national income.

At the first of each quarter the banks will debit $1\frac{1}{2}\%$ against every deposit account and credit the amount to the government account. The collection of the revenue, therefore, will be only a matter of bookkeeping entries and it will cost a bagatelle.

This money will then be expended by the government (a) for public works, (b) for old age pensions and (c) to retire treasury notes. The money when spent for the first two purposes will be spent mostly for consumer goods and will inevitably and automatically return to deposits. It will thus rotate from deposits through the entire business structure back to deposits within the three months without altering the total quantity of bank-money. The quantity of bank-money will be decreased however by whatever part of the revenue that may be used to retire treasury notes. The government or the economic council will, therefore, be able to control the quantity of money to be used in Canada at all times.

Stabilizing Prices

By using this revenue for the three purposes named the government will be able to stabilize prices to a great extent and iron out the booms and depressions of the business cycle. As soon as the price index begins to drop and industrial unemployment increases more of the revenue will be used for the first purpose and less for the third, thus distributing more purchasing power by providing employment on public works for all industrially unemployed. In fact this can be carried to any extent necessary to stop a depression quickly, since, instead of retiring any treasury

notes for the time, more of them can be issued and bank-money created and used for public works.

On the other hand, during rising prices and increasing industrial employment less of the revenue will be used for public works and more for the retiring of treasury notes.

The economic council will determine the minimum amount of treasury notes to be kept in the banks and not retire any beyond that amount, and will undoubtedly be able to reduce the demurrage from $\frac{1}{2}\%$ per quarter to probably $\frac{1}{2}\%$ per annum, in time.

Stimulating Capital

More than 90% of the purchasing power to be found in bank deposits and in public bonds is being held continuously idle under our present monetary system. The demurrage revenue, therefore, will be drawn almost entirely from idle money and while the charge will not be onerous on depositors at any time yet it will stimulate them to use their money because if they keep it idle for a long period they will have to pay more demurrage. Each depositor will be required to contribute his $\frac{1}{2}\%$ at the beginning of every quarter but since the total revenue will be returned to deposits within the three months it will depend upon his own activities to get his own contribution back and more if he can. But he will have less demurrage to pay the more he keeps his own money invested.

Hoarding of Currency

It will be contended by many that with demurrage on bank-money but none on currency in the hands of the general public there will be a tendency to hoard currency outside the banks and not deposit it. The government may have to take special measures to cope with this, but there are so many advantages in depositing all surplus money-in-hand and using cheques rather than currency that much of the contention may be discounted. When money is deposited in the banks it is safe. The charge of $\frac{1}{2}\%$ per quarter is very small and will be looked upon not only as demurrage for holding money idle but also as insurance against loss by fire, theft and carelessness, as paying for the services of the banks and as a guarantee by the government as to the security of deposits. It will also be considered as insurance against general unemployment and business depressions.

Further, the government will undoubtedly remove the stamp tax from cheques, arrange for lower exchange charges and take other steps to facilitate the use of bank-money. If these measures be not enough to prevent the hoarding of currency then the government may take direct steps that will require, within reasonable limits, all currency when not in use outside the banks to be deposited in the banks.

THE ROTARY PLAN

The Rotary Plan as outlined in the foregoing is designed:

1. To refinance the present total public debt of Canada as to eliminate the paying of interest on it, yet to prevent the repudiation of the principal.
2. To do away with the necessity of the government "borrowing" money for public purposes in the future and thus avoid any interest-bearing public debt.
3. To prevent currency inflation.
4. To gradually reduce by means of the demurrage charge the \$7,500,000,000 of hoarded purchasing power now tied up in public bonds outstanding to an amount that will be of greatest service to the whole nation.
5. To provide means to iron out the booms and depressions of the business cycle.
6. To solve the great unemployment problem.

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